

**MINUTES OF A PUBLIC MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM
OPERATIONS, AUDIT, & LEGISLATIVE COMMITTEE**

**Wednesday, July 13, 2022
2:30 p.m., Arizona Time**

A quorum of the Operations, Audit, & Legislative Committee (OALC) of the Arizona State Retirement System (ASRS) met in public session in person in the First Floor Board Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012.

Ms. Sarah Webber, Chair of the Operations, Audit, and Legislative Committee, called the meeting to order at 2:31 p.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Ms. Sarah Webber, Chair (virtual)
Mr. Michael Miller, Vice-chair (virtual)
Mr. Jim Mueller (virtual)

A quorum of the Committee was present to conduct business.

Ms. Bridget French, ASRS Committee Administrator, provided all attendees with the meeting guidelines.

2. Approval of the Minutes of the April 13, 2022, Public Meeting and Executive Session of the OALC

Motion: Mr. Jim Mueller moved to approve the Minutes. Mr. Michael Miller seconded the motion.

By a roll call vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused, and 0 vacancies, the motion was approved. The Trustee votes were as follows:

Ms. Sarah Webber – approved
Mr. Michael Miller – approved
Mr. Jim Mueller – approved

3. Presentation, Discussion, and Appropriate Action Regarding ASRS Budget-Related Topics

Mr. Anthony Guarino introduced Ms. Martha Rozen, Chief of Administrative Services, Mr. Chris Gustafson, Procurement and Budget Manager, and Mr. James Samolowicz, Senior Investments Operations Analyst.

Ms. Rozen began the presentation of the Budget Request and Spending Plans for the FY2023 and FY2024 and introduced Mr. Gustafson and Mr. Samolowicz, along with Mr. Jeremy Gunderson,

Budget Manager, as the creators of the materials for this presentation. Ms. Rozen detailed the changes in the spending plans for FY2023.

Ms. Rozen stated that the FY2023 General Appropriations Act and the 10% salary adjustment for eligible employees are a centerpiece for the spending plan for FY2023 and the FY2024 budget request. The spending plans for FY2023 and FY2024 have been thoughtfully planned and constructed to support the ASRS strategic plan and the Six Strategic Priorities.

Mr. Gustafson began his presentation of information for the budget request and spending plans for FY2024. The legislature authorized a 10% salary increase for state employees to be enacted in the pay period beginning this week, which the ASRS estimates to be approximately \$1,753,500.

The Technology Services Division (TSD) utilizes external resources when full-time employees (FTE) are unavailable due to salary requirements and market conditions. These external resources do not qualify for the salary increase approved by the legislature. Research has shown that current compensation for external resources is insufficient. The ASRS requests \$430,000 in FY2024 to increase external technology specialists/resources compensation.

The ASRS requested \$200,000 in FY2024 for additional Oracle licensing costs to support the agency's information technology applications. In addition, to maintain information security, the ASRS requested \$318,000 to purchase critical security enhancement software and \$57,000 to purchase a product to protect shared administrator accounts. The total cost of the ASRS expected FY2024 request is \$948,000. When including the required salary adjustments, the ASRS asked to adjust the total to an estimated \$2.6 million.

Mr. Mueller asked if the amount requested was enough to keep talented staff employed. Mr. Guarino responded that the ASRS has set aside funds for the next two years to address these issues. He also stated that the agency would track employee turnover monthly to identify trends.

Mr. Miller asked for clarification regarding database licensing and one-time licensing. Mr. Gustafson responded that \$46,000 is ongoing costs, and the rest are one-time costs. Mr. Miller supported Mr. Mueller's statement that the ASRS must maintain flexibility to procure software and employees.

Ms. Webber asked about the TSD resources and research results for salaries and clarification on the 12% increase vs. the state's 10% increase. Mr. Gustafson explained that the 12% salary increase referenced is for external resources, who are not eligible for the 10% state employee salary increase.

Ms. Webber thanked the legislature for the funding and commended the agency for the support they give employees.

Mr. James Samolowicz presented information regarding the spending plan for the ASRS Investment Program for FY2023 and FY2024. The Investment Program spending plan for both years includes expenditures that ASRS Management believes are necessary and appropriate to achieve established investment goals and objectives. The most significant portion of the budget is related to the fees associated with the internal and external management of ASRS assets held in both public and private markets. The ASRS Investment Management team continues to be mindful of the actual and proposed costs when it engages the services of external consultants and providers. The group actively works to identify and employ the right complement of resources, data tools, and systems that will allow for efficient management, compliance, and performance reporting.

Motion: For Agenda Item #3A, Mr. Michael Miller moved to accept and forward to the ASRS Board of Trustees the following:

The proposed updated administrative spending plan of \$37,984,200 for FY 2023 with the understanding there will be changes to the total appropriated budget amount due to legislative and executive adjustments and the updated continuously appropriated investment spending plan of \$132,045,100 for FY 2023 subject to revised management projections, and to include private markets performance incentives and other fees when identified and paid.

Mr. Jim Mueller seconded the motion.

By a roll call vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused, and 0 vacancies, the motion was approved. The Trustee votes were as follows:

Ms. Sarah Webber – approved
Mr. Michael Miller – approved
Mr. Jim Mueller – approved

Motion: For Agenda Item #3B, Mr. Miller moved to accept and forward to the ASRS Board of Trustees the following:

1) An appropriated budget request for FY 2024 in the amount of \$28,009,500, with an understanding there will be changes to the total appropriated budget amount due to legislative and executive recommendations.

2) The proposed administrative spending plan of \$39,304,300 and continuously appropriated investment spending plan of \$135,982,300 for FY 2024, subject to revised management projections and to include private markets performance incentives and other fees when identified and paid.

By a roll call vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused, and 0 vacancies, the motion was approved. The Trustee votes were as follows:

Ms. Sarah Webber – approved
Mr. Michael Miller – approved
Mr. Jim Mueller – approved

4. Presentation, Discussion, and Appropriate Action Regarding the 2022 Annual Retiree Survey

Mr. Guarino introduced Ms. Katie Daigneault, Strategic Planner and Survey Administrator.

Ms. Daigneault presented information and materials regarding the 2022 Annual Retiree Survey results. The ASRS utilizes a robust survey program with a multipronged approach, including perception-based, transaction, and ad hoc surveys. This survey is sent annually to a representative sample of retirees, attempting to reach a statistically significant response of 95% +/-5% for our Years of Service cohorts. Cohort groups are created for the retirement length, including years of service and years retired. Ms. Daigneault described the summary of the results, including the continued relationship between years of service and satisfaction with the ASRS. Ms. Daigneault continued to present background information on the definition of the net promoter score figures: the most satisfied retirees are those that retired with ten or more years of service and have been retired for five or less years. The least satisfied group had less than ten years of service and had been retired less than five years.

Mr. Mueller asked for more details about the total number of ASRS retirees and the response rate for this survey. Ms. Daigneault responded that the number of retirees surveyed was carefully crafted to provide a statistically significant figure for the group as a whole and within the cohorts.

Mr. Miller commented that the scores might represent young teachers just starting their careers who may not stay in education. Ms. Daigneault agreed that the lower scores relate to those members with low exposure to the agency.

Ms. Webber commented that those members with little service do not receive as many benefits. Ms. Daigneault responded with information about lump sum benefit recipients and how that relates to those members with fewer years of service.

Ms. Daigneault continued with her presentation and explained the topics of additional comments the ASRS received with this survey, including post-retirement benefit increases (PBI/COLA) and health insurance premiums. Recommendations from the results include continued education and communications with members throughout the member's time with the agency, including new retirement processing and additional analysis of the lump sum retiree cohort.

Mr. Miller commended the ASRS for reaching out to these retirees and asked for clarification on having members' most up-to-date contact information. Ms. Daigneault responded that the ASRS regularly reaches out to members to obtain current contact information.

Ms. Webber thanked the ASRS for their work especially looking at the results of those members close to retirement.

5. Presentation, Discussion, and Appropriate Action Regarding the ASRS Employer Compliance

Mr. Guarino introduced Mr. Jeremiah Scott, Assistant Director, Member Services Division (MSD).

Mr. Jeremiah Scott introduced Ms. Jeniffer Gomez-Pabon, Employer Relations Manager (MSD)

Ms. Gomez-Pabon began her presentation of information and materials regarding the employer compliance program. The program, created in 2018, takes a proactive approach to ensure that the employer partners comply with the ASRS statutes, rules, and policies. The ASRS researched possible anomalies and addressed these findings with the employer partners. Ms. Gomez-Pabon detailed the results of the program, including the health insurance premium benefit, employers offering Termination Incentive Programs (TIP), membership and compensation amounts, and contribution rate reporting.

Also, because of the change in the workforce, employer partners reported a significant number of new employees in their hire. The ASRS Employer Relations team is working very hard to educate these new employer employees on administering the pension plan. Employers play a significant role in the net promoter scores of ASRS members as they are the first contact with the agency. Education efforts include quarterly employer newsletters, targeted emails to employer partners, and planning for employer conferences. Ms. Gomez-Pabon discussed enhancements to the employer relations program, including in-person meetings at an employer's business.

Mr. Scott commented that the relationship between the ASRS and employers has drastically changed because of the staffing issues and high turnover of the employers. The ASRS has committed a significant amount of time and resources, including the Communications team, to training the employer's employees on the policies and procedures of the ASRS, which helps avoid complex audit issues.

Mr. Mueller and Ms. Webber commended the agency for being so proactive. Ms. Webber commented that it is positive to see early TIPS decrease in number, and it is important to continue educating employers about these programs' impact on the agency. Mr. Miller commented that turnover in the administration of schools and school districts is very high and that ASRS training is essential to employers.

6. Presentation, Discussion, and Appropriate Action Regarding Rulemaking Updates for the 2021 and 2022 Regulatory Agendas

Mr. Guarino introduced Ms. Jessica Thomas, Government Relations Officer/Rules Writer.

Ms. Thomas began her presentation of information and materials regarding rulemaking and regulatory agendas. In October 2021, the Operations, Audit, and Legislative Committee (OALC) approved staff to proceed with regular rulemaking to amend rules relating to Required Minimum Distributions, Overpayments, Domestic Relations Orders, Service Purchase, and Health Insurance Appeals. The OALC also approved staff to proceed with expedited rulemaking to amend rules relating to the Five-year Rule Review (5YRR) for 2 A.A.C. 8, Articles 6 and 7 relating to Public Participation in the Rulemaking Process and Contributions Not Withheld. These rulemakings are complete.

In November 2021, the Board approved the 2022 Regulatory Agenda with seven expected rulemaking initiatives and two more 5YRR reports. The staff has completed one of the rulemaking initiatives expected on the 2022 Regulatory Agenda and is continuing to work on the remaining six rulemaking initiatives and 5YRRs.

Ms. Thomas referenced the rulemaking initiatives found in the materials. Most of the 2021 Regulatory Agenda initiatives have an effective date of July 17, 2022. Regarding domestic relations orders, there is an update to the effective date, which is now September 4, 2022.

The ASRS also completed the expedited rulemaking related to the 5YRR, which was not included on the 2021 Regulatory Agenda, nor was the regular rulemaking to amend the agency insurance appeals rules to go into effect with the new self-insured insurance program. One rulemaking item has been completed for 2022: update the interest rate that went into effect with the new fiscal year on July 1, 2022. The agency will continue to work on the rest of the issues on the 2022 regulatory agenda.

Ms. Webber commended Ms. Thomas for her work on these issues.

7. Presentation, Discussion, and Appropriate Action Regarding the Quarterly Internal Audit Report

Mr. Guarino introduced Mr. Harold Mackey, Chief Internal Auditor.

Mr. Mackey began his presentation of information and materials regarding the Q4 Internal Audit Report. This quarterly audit report covers the following activities that the Internal Audit Division (IAD) supports, including:

- Important advisory activities included employer audits, potential external fraud, consistency of terminology of withdrawal language, the information provided to the Arizona Attorney General for the Toltec Elementary School District, and customized audit management tools.

- Monitoring activities included: IMD-related Issues, Combined Asset Class Committee meetings, in-house disbursement risks & controls, TSD project reviews including information protection and security and cloud migration monitoring, and employer updates.
- Work plan updates included: employer relations assessment, pension/long-term disability and death reporting, foreign annuitants, custody bank transition, and appeals process.
- Summary of hours and budget update.
- Administrative activities included monitoring the fraud hotline.

8. Presentation, Discussion, and Appropriate Action Regarding Amendments to the Fiscal Year 2022 – 2023 Internal Audit Plan

Mr. Guarino introduced Mr. Mackey.

Mr. Mackey began his presentation of information and materials regarding requested amendments to the internal audit plan, including:

- Add the Society for Worldwide Interbank Financial Telecommunication (SWIFT) Assessment
- Defer the Quality Assurance Review
- Reclassify the Data Management Practices and Information System Access Controls
- Defer Enterprise Infrastructure Services Asset Protection Controls & Assessment of Customer Service: Vendor Service Level Agreements
- Cancel the duplicate Assessment of the ASRS Appeals Process
- Complete SWIFT training
- Adjust the hours to Post-Custody Bank Implementation
- Adjust completion date of Audit Management Tool Implementation
- Adjust completion of cloud migration

Ms. Webber, Mr. Mueller, and Mr. Miller commented that the proposed amendments were reasonable.

Motion: Mr. Miller moved to approve the proposed amendments to the fiscal year 2022-2023 Internal Audit Plan as presented. Mr. Mueller seconded the motion.

By a roll call vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused, and 0 vacancies, the motion was approved. The Trustee votes were as follows:

Ms. Sarah Webber – approved
Mr. Michael Miller – approved
Mr. Jim Mueller – approved

9. Call to the Public

No members of the public requested to speak.

10. Presentation, Discussion, and Appropriate Action Regarding the ASRS Information Security Program

Motion: Mr. Michael Miller moved to go into executive session pursuant to A.R.S. § 38-431.03(A)(2) for the purpose of discussion or consideration of records exempt by law from public inspection. Mr. Jim Mueller seconded the motion.

By a roll call vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused and 0 vacancies, the motion was approved. The Trustee votes were as follows:

Ms. Sarah Webber – approved
Mr. Michael Miller – approved
Mr. Jim Mueller – approved

The Committee convened for Executive Session at 4:07 p.m.

The Committee reconvened for Public Session at 4:34 p.m.

11. Requests for Future Agenda Items

No requests for future agenda items were made.

12. The next regular public OALC meeting is scheduled for Wednesday, October 12, 2022, at 2:30 p.m.

Ms. Webber noted the next OALC meeting is scheduled for Wednesday, October 12, at 2:30 p.m.

13. Adjournment of the OALC

Ms. Webber adjourned the meeting at 4:37 p.m.

Respectfully Submitted,

Bridget French
Committee Administrator
ARIZONA STATE RETIREMENT SYSTEM